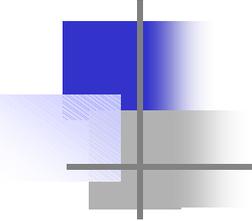




OVERVIEW OF MEDICARE PRESCRIPTION DRUG BENEFITS

Prepared by the Legislative Budget Board Staff
for the Health and Human Services Subcommittee
House Committee on Appropriations

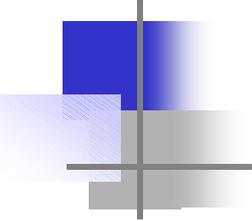
June 29, 2004



Highlights



- Drug Discount Cards
- Part D Prescription Drug Benefit
- Savings Related to Dual Eligibles
- Employer Subsidies



Drug Discount Cards

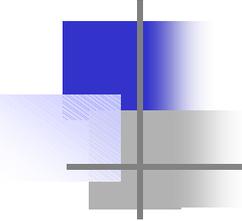


- Available now through January 2006;
- Offered by private entities such as pharmacies, pharmacy benefit managers, and health insurance companies;
- Estimated to save 10-25%;
- Maximum \$30 annual enrollment fee;
- Assistance to low-income recipients;
- Medicare recipients also eligible for full Medicaid benefits (“dual eligibles”) may not use discount cards.

Discount Cards: Assistance for Low-income Enrollees



- Income less than 100% of Federal Poverty Level (FPL)
 - Up to \$9,310 for single person; \$12,490 for two
 - Federal government pays 95% of costs up to \$600 per year
- Income between 100% and 135% of FPL
 - Up to \$12,569 for single person; \$16,862 for two
 - Federal government pays 90% of costs up to \$600 per year
- Federal government pays enrollment fees.



Part D

Prescription Drug Benefit



- Available in January 2006;
- Voluntary, outpatient prescription drug benefit provided through private, risk-bearing plans;
- Federal subsidies provided for out-of-pocket expenses of low-income enrollees (less than 150% FPL);
- Dual eligibles (Medicare + Medicaid) may receive Part D benefits.

Coverage for Persons over 150% of FPL in 2006



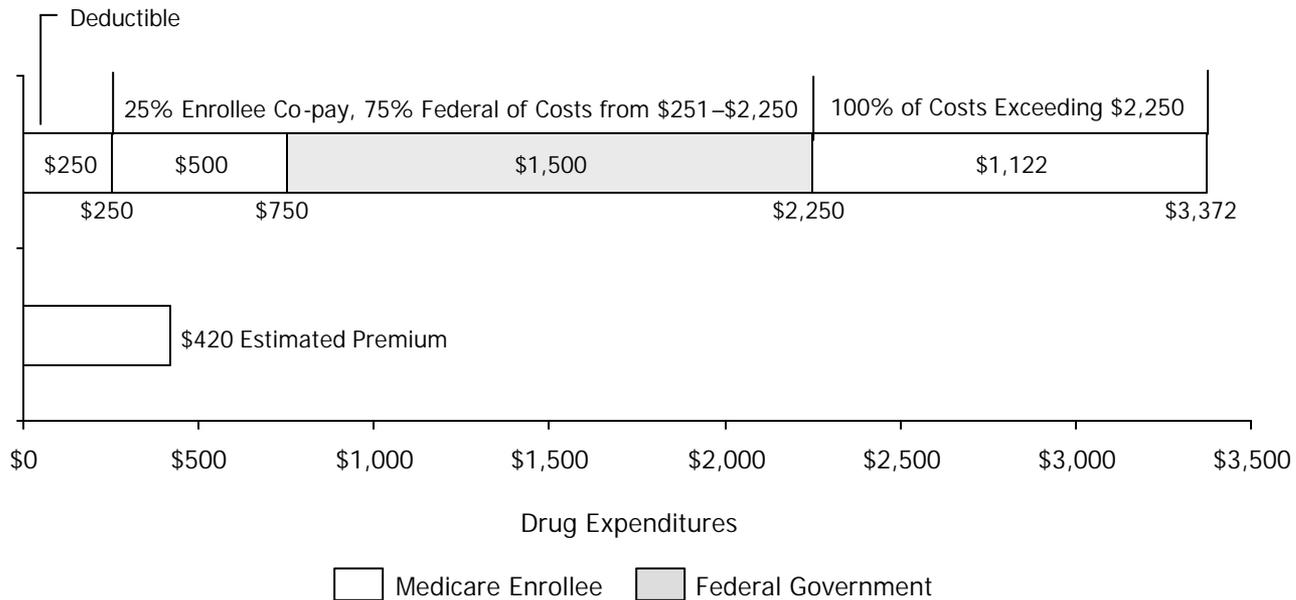
- Premiums: \$35/month or \$420/year (est.)
- Deductible: \$250
- Co-pays:
 - Expenditures \$250-\$2,250: 25%
 - Expenditures \$2,251-5,100: 100%
 - Expenditures over \$5,100: 5%

Example: Person over 150% FPL with Annual Drug Costs of \$3,372



Prescription Drug Costs without Medicare Part D: \$3,372
 Total Out-of-Pocket Expenditures with Medicare Part D: \$2,292
 Medicare Enrollee's Savings: \$1,080

\$420	Premium
\$250	Deductible
\$500	Co-pay
\$1,122	Exceeding \$2,250
<u>\$2,292</u>	Total



Subsidies for Low-income Persons



- Income less than 135% FPL
 - Premiums: \$0
 - Deductible: \$0
 - Co-pays: Nominal
- Income between 135 and 150% of FPL
 - Premiums: \$0 - \$35/month
 - Deductible: \$50
 - Co-pays: 15% of expenditures \$250-\$5,100
Nominal after \$5,100

Treatment of Dual Eligibles

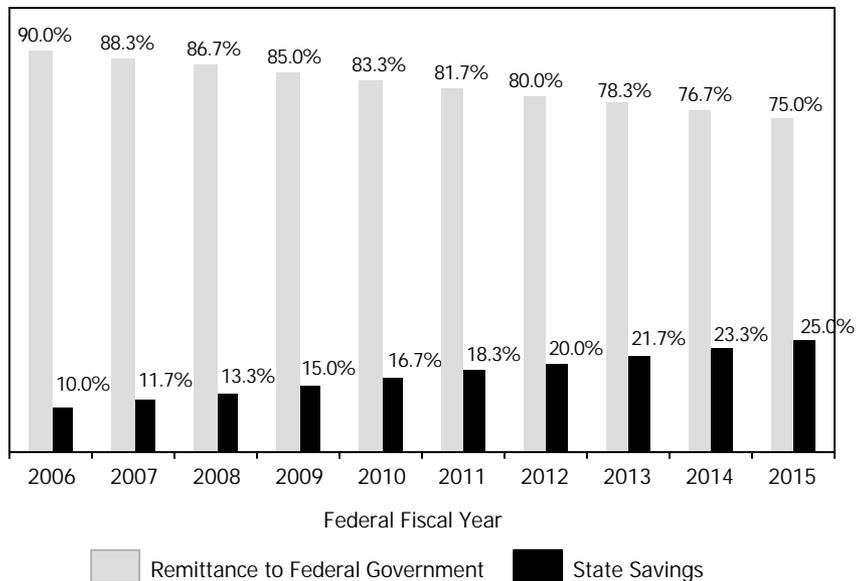


- Federal government assumes drug costs for dual eligibles in January 2006.
- Most of the Medicaid savings related to dual eligibles must be remitted by states to the federal government.
- The amount to be returned starts at 90% of projected costs in 2006, phasing down incrementally to 75% by 2015.

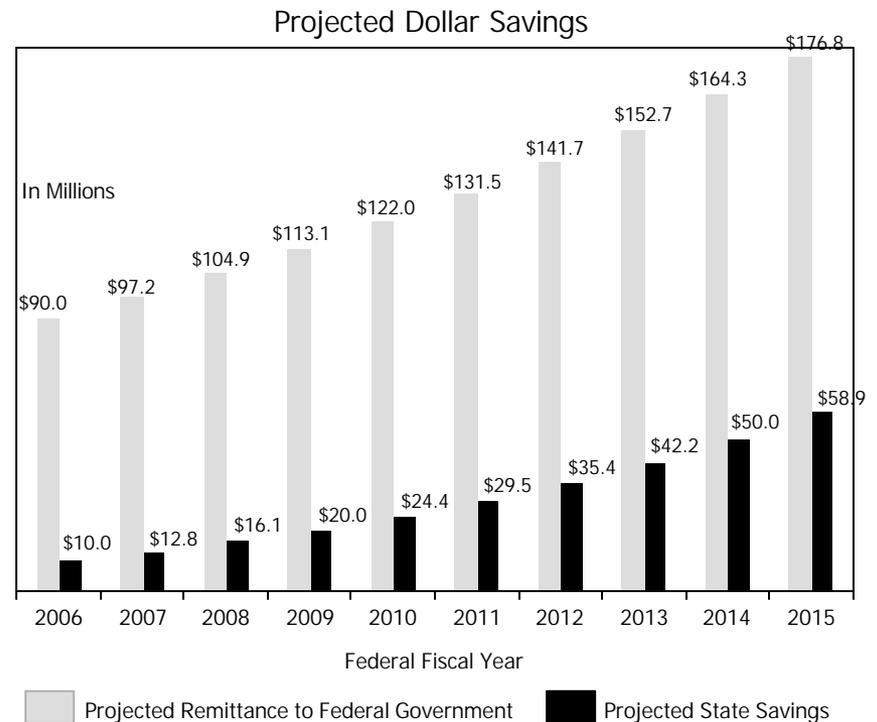
Medicaid Prescription Drug Savings Related to Dual Eligibles



Phase-in of State Remittance Related to Dual Eligibles
Percentage Savings



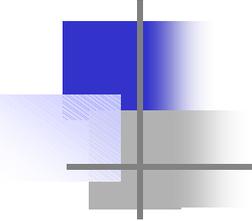
Example for Illustration Purposes Only
State Share of Drug Costs for Medicare Recipients
with Full Medicare Benefits = \$100 million in FFY 2006



Subsidies to Employers



- To address concerns that employers currently offering drug benefits would drop coverage, subsidies are provided to employers continuing benefits.
- Employers who continue drug benefits that are actuarially equivalent to Part D can receive 28% of annual drug costs between \$250 and \$5,000 for each Medicare recipient.
- The employer subsidy can be excluded from taxation.



Policy Options for Employers



- Employers may discontinue drug coverage to persons eligible for Medicare Part D.
- Employers may continue coverage and claim the 28% subsidy.
- Employers may provide the premiums, deductibles and/or co-pays for retirees to enroll in Medicare Part D.

Impact on State Retiree Benefits



- State and local governments are eligible for the employer subsidies.
- Changes in policy would impact:
 - Employees Retirement System
 - Teacher Retirement System
 - The University of Texas System
 - The Texas A&M University System